

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 XMB-02

OPIC-03 /102 W

-----090443Z 126231 /16

R 090108Z JUN 77

FM AMEMBASSY RANGOON

TO SECSTATE WASHDC 3605

C O N F I D E N T I A L SECTION 1 OF 3 RANGOON 1626

E.O. 11652: GDS

TAGS: EFIN, ENRG, BTIO

SUBJ: LOAN AGREEMENT FOR MYANMA OIL CORPORATION

REF: RANGOON 0356

SUMMARY:

OFFICIALS OF CHASE MANHATTAN BANK AND ALL PARTICIPATING FINANCIAL INSTITUTIONS RECENTLY SIGNED THE LOAN AGREEMENT EXTENDING \$38.75 MILLION TO MYANMA OIL CORPORATION TO FINANCE A PIPELINE CONSTRUCTION AND PURCHASE OF OIL RIGS. THIS CABLE SUMMARIZES TERMS AND SERVICING OF THE LOAN. A LARGE SHARE OF THE CREDIT HAS ALREADY BEEN COMMITTED, AND IT HAS RESULTED IN SIGNIFICANT ORDERS FROM U.S. SUPPLIERS, PRIMARILY FOR OIL RIGS. END SUMMARY.

TERMS

ON JUNE 6 OFFICIALS OF PARTICIPATING BANKS AND THE MANAGING DIRECTOR OF THE STATE-OWNED MYANMA OIL CORPORATION (MOC) SIGNED THE FORMAL DOCUMENTS EXTENDING A LOAN TO MOC TO FINANCE PIPELINE CONSTRUCTION AND ACQUISITION OF ONSHORE OIL DRILLING RIGS. TERMS OF THE LOAN ARE AS FOLLOWS:

BORROWER: MYANMA OIL CORPORATION

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GUARANTOR: MINISTRY OF PLANNING AND FINANCE

AMOUNT: \$38,750,000

PURPOSE: THE LOAN WILL BE USED SUBSTANTIALLY AS FOLLOWS:

- 1) \$14,900,000 FOR PURCHASE OF COMPONENTS AND EQUIPMENT RELATED TO PIPELINE CONSTRUCTION.
- 2) \$23,850,000 FOR ACQUISITION OF LAND DRILLING RIGS.

AVAILABILITY AND DRAWDOWN: THE LOAN WILL BE AVAILABLE FOR DRAWDOWN OVER A TWO-YEAR PERIOD FROM THE DATE OF SIGNING OF THE LOAN AGREEMENT (JUNE 6, 1977). THE ESTIMATED DRAWDOWN SCHEDULE IS AS FOLLOWS:

JUNE 1-OCTOBER 30, 1977 \$9,297,000
NOVEMBER 1-APRIL 30, 1978 35,836,000
MAY 1-OCTOBER 30, 1978 \$38,750,000
NOVEMBER 1-APRIL 30, 1978 38,750,000

REPAYMENT SCHEDULE: EIGHT EQUAL SEMI-ANNUAL PAYMENTS OF \$4,843,750 COMMENCING 24 MONTHS, AND WITH FINAL LOAN MATURITY 66 MONTHS, FROM THE DATE OF SIGNING THE LOAN AGREEMENT.

INTEREST RATE: 2.5 PERCENT PER ANNUM OVER THE LONDON INTERBANK OFFERED RATE (LIBOR) FOR 6 MONTHS FOR U.S. DOLLAR DEPOSITS. INTEREST WILL BE PAYABLE SEMI-ANNUALLY IN ARREARS.

COMMITMENT FEE: .75 PERCENT PER ANNUM ON THE UNDRAWN PORTION PAYABLE SEMI-ANNUALLY IN ARREARS.

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TAXES: ALL PAYMENT OF PRINCIPAL AND INTEREST AS WELL AS OTHER PAYMENTS SHALL BE MADE BY THE BORROWER FREE AND CLEAR OF ALL TAXES, LEVIES, IMPORT DUTIES, CHARGES OR WITHHOLDINGS OF ANY NATURE.

PREPAYMENT FEE: THE BORROWER MAY, WITH 30 DAYS NOTICE, PREPAY THIS FACILITY IN MULTIPLES OF \$500,000 ON ANY DAY THAT CORRESPONDS WITH AN INTEREST ADJUSTMENT DATE.

CANCELLATION FEE: THE BORROWER MAY CANCEL IN WHOLE OR IN PART, IN MULTIPLES OF \$1,000,000. THE FEE APPLICABLE SHALL BE ONE PERCENT OF THE AMOUNT CANCELLED. THIS CANCELLATION RIGHT SHALL EXIST THROUGH THE FINAL AVAILABILITY DATE.

GOVERNING LAW: THE LOAN AGREEMENT WILL BE GOVERNED BY

THE LAWS OF THE STATE OF NEW YORK FOR
JURISDICTION AND SERVICE AND HONG KONG
LAW CONCERNING SUBSTANTIVE LAW.

AGENT: CHASE MANHATTAN ASIA LIMITED

MANAGERS: CHASE MANHATTAN ASIA LIMITED
WARDLEY LIMITED

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R 090108Z JUN 77
FM AMEMBASSY RANGOON
TO SECSTATE WASHDC 3606

C O N F I D E N T I A L SECTION 2 OF 3 RANGOON 1626

PARTICIPANTS: AMEX BANK LTD.; ARAB-MALAYSIAN DEVELOP-
MENT BANK; LAVORO BANK INTERNATIONAL; BANK
OF INDIA'S HONG KONG OFFICE; TOKYO FINANCE
(ASIA) LTD.; COMMERZBANK INTERNATIONAL SA;
DB FINANCE (HONG KONG) LTD.; ORION PACIFIC
LTD.; OVERSEAS UNION BANK LTD.; SOCIETE
GENERAL; UNITED CHASE MERCHANT BANKERS
LTD.; AND WARDLEY LTD.

REPAYMENT

BASED ON MOC PROJECTIONS, THE LOAN IS EXPECTED TO BE SELF-
LIQUIDATING AS A SURPLUS OF CRUDE OIL IS FORCAST TO BE AVAIL-
ABLE FOR EXPORT BEGINNING IN BURMESE FY (APRIL TO MARCH) 1977
AT SOME 1.7 MILLION BARRELS AND RISING TO AN ESTIMATED 6
MILLION BARRELS BY FY 1980. BY 1981 A NEW REFINERY WHICH WOULD
INCREASE BURMA'S REFINERY THROUGHPUT BY 40 PERCENT COULD REDUCE
CRUDE OIL EXPORTS TO ABOUT 2.7 MILLION BARRELS. HOWEVER, THE
NEW REFINERY IS EXPECTED TO PROVIDE AN EXPORTABLE SURPLUS OF
REFINED PRODUCTS. MOC ANTICIPATES THAT ITS CRUDE, WHICH IS
LOW SULPHUR, HIGH SPECIFIC GRAVITY PETROLEUM, WILL COMMAND A

PREMIUM FROM BUYERS. HOWEVER, ONLY SMALL TANKERS COULD BE LOADED AT THE EXPORT TERMINAL, AND ON THIS ASSUMPTION, GUB OFFICIALS BELIEVE BURMA COULD RECEIVE ABOUT \$12.00 PER BARREL
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AS AN FOB PRICE. THUS, CUMULATIVE EARNINGS FROM CURDE OIL EXPORTS DURING THE LOAN PERIOD ARE CALCULATED AT \$249 MILLION AND THE FOREIGN EXCHANGE GENERATED FROM THE EXPORTS IS PROJECTED TO SERVICE THE DEBT BY A FACTOR OF 2.9 TO 7.6 TIMES. THIS IS BASED ON AN ESTIMATED 6 MONTHS LIBOR COST OF 10 PERCENT PER ANNUM. THE PROPOSED DEBT SERVICE IS GIVEN BELOW.

(VOLUME IN THOUSAND BARRELS; VALLUE IN \$ MILLION)

FISCAL YEAR	1977	1978	1979	1980	1981	1982
MOC CRUDE PRODUCTION	10,950	12,556	14,969	16,170	17,082	17,150
CRUDE OIL RECEIPT TO THE REFINERIES	10,400	11,928	14,220	15,360	15,821	16,296
REFINERIES THROUGHPUT	8,666	9,030	9,360	9,360	13,120	13,742
PROJECTED EXPORT AVAILABIITY	1,734	2,898	4,860	6,000	2,701	2,554
PROJECTED EXPORT (FOB) EXCHANGE	CONSTANT AT US\$12.00					
EARNINGS	\$20.8	\$34.8	\$58.3	\$72.0	\$32.4	\$30.6
DEBT SERVICE OF PRESENT LOAN	\$ 2.75	\$ 9.6	\$13.6	\$12.4	\$11.2	\$ 4.9
DEBT SERVICE COVERAGE	7.6X	3.6X	4.3X	5.8X	2.9X	6.3X
CUMULATIVE FX EARNINGS	20.8	55.6	113.9	185.9	218.3	248.9

COMMENT: THE EMBASSY IS MUCH LESS SANGUINE ABOUT PROSPECTS
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FOR BURMA'S PETROLEUM EXPORTS. FOR EXAMPLE, THE ABOVE FIGURES ARE BASED ON THE ASSUMPTION THAT THE LETPANDO FIELD CAN PRODUCE OVER 2.5 MILLION BARRESL PER YEAR BY 1980 WHILE QUALIFIED

FOREIGN OBSERVERS HAVE EXPRESSED THE BELIEF THAT, AT BEST, THE FIELD WILL NEVER REACH MORE THAN 400,000 BARRELS PER YEAR. OTHER ESTIMATES ALSO SEEM OVERSTATED. NEVERTHELESS, BURMA SHOULD BE ABLE TO PRODUCE ENOUGH PETROLEUM DURING THE LOAN PERIOD TO FULLY MEET DOMESTIC NEEDS AND PERHAPS LEAVE A SMALL EXPORTABLE SURPLUS, WHICH CONSIDERING THE RATHER CONSERVATIVE PRICE ESTIMATE, SHOULD BE SUFFICIENT TO SERVICE THE LOAN.

SHOULD THE LOAN NOT BE SELF-LIQUIDATING, THE GUB GUARANTEE WILL UNDOUBTEDLY BE HONORED. BURMA TAKES GREAT PRIDE IN ITS REPAYMENT RECORD, AND AS THIS IS BURMA'S FIRST COMMERCIAL LOANON SUCH A LARGE SCALE, THE GUB WILL MAKE EVERY EFFORT TO AVOID DEFAULT. THE CHAIRMAN OF THE UNION OF BURMA BANK (CENTRAL BANK) TOLD ANOTHER VISITING GROUP OF U.S. BANKERS THAT BURMA WAS "TESTING THE MARKET" IN UNDERTAKING THIS LOAN AND NO FURTHER COMMERCIAL LOANS OF SUCH A MAGNITUDE ARE CONTEMPLATED UNTIL THIS OBLIGATION HAS BEEN MET.

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INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 XMB-02
OPIC-03 /102 W

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R 090108Z JUN 77
FM AMEMBASSY RANGOON
TO SECSTATE WASHDC 3607

C O N F I D E N T I A L SECTION 3 OF 3 RANGOON 1626

IMPLICATION FOR U.S.
CHASE MANHATTAN OFFICIALS EXPRESSED SOME DISAPPOINTMENT THAT NO OTHER U.S. BANKS PARTICIPATED IN THE LOAN. THEY ATTRIBUTED THIS TO THE NEGATIVE ATTITUDE TOWARD BURMA EXHIBITED BY EXIM BANK. THE OFFICIALS CLAIMED THAT U.S. BANKS BEING UNQCQUAINTED WITH CONDITIONS IN BURMA FOLLOWED EXIM BANKS'S EXAMPLE IN REFUSING TO EXTEND CREDIT FOR PURCHASE OF OIL RIGS BY MOC. (THE CHASE OFFICIALS ALSO TOLD EMBASSY OFFICERS THAT THEY HAD APPROACHED THE BANK OF CHINA WITH A REQUEST THAT IT PARTICIPATE IN THE LOAN, BUT HAD

RECEIVED NO RESPONSE.)

GUB OFFICIALS HAVE ON SEVERAL OCCASIONS EXPRESSED APPRECIATION AND EVEN SURPRISE THAT THE EMBASSY DID NOT ATTEMPT TO DISCOURAGE A U.S. BANK FROM EXTENDING SUCH CREDIT TO BURMA. WHILE THE COMMERCIAL LOAN IS FAR FROM THE SOFT BILATERAL CREDITS THE GUB IS SEEKING FROM POTENTIAL DONOR NATIONS, BURMESE OFFICIALS NOTED THAT THE EMBASSY'S ATTITUDE DEMONSTRATES THAT THE U.S. IS NOT ALWAYS NEGATIVE REGARDING CREDIT FOR BURMA.

ACCORDING TO MOC OFFICIALS ABOUT 70 PERCENT OF THE CREDIT HAS ALREADY BEEN COMMITTED. THE LOAN HAS GENERATED CONFIDENTIAL

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MORE THAN \$16 MILLION WORTH OF SALES FROM THE U.S. - OVER 6 MILLION FOR A DEEP DRILLING RIG PURCHASED FROM CONTINENTAL EMSCO CORP. AND APPROXIMATELY \$10 MILLION FOR FOUR MEDIUM RIGS PURCHASED FROM GARDNER-DENVER CO. U.S. SUPPLIERS SHOULD BE ABLE TO PROVIDE THE LARGEST SHARE OF THE SOME \$7 MILLION WORTH OF DRILLING EQUIPMENT YET TO BE PURCHASED AND PERHAPS SOME OF THE EQUIPMENT TO BE PURCHASED FOR THE PIPELINE. FOR COMMERCIAL PURPOSES THE EQUIPMENT TO BE OBTAINED UNDER THIS LOAN IS LISTED BELOW:

DRILLING EQUIPMENT
(FIGURES IN '000 \$)

ITEM	QUANTITY	UNIT COST	TOTAL
DEEP DRILLING RIG	1	6,200	6,200
AUXILIARY EQUIPMENT FOR DEEP DRILLING RIG	1 SET	1,010	1,010
MEDIUM DEPTH DRILLING RIG	4	2,500	10,000
AUXILIARY EQUIPMENT FOR MEDIUM RIG	4 SET	583	2,330
RIG SUPPORT EQUIPMENT (PRIMARILY TRANSPORT)	1 SET	4,325	4,325

PIPELINE PROJECT

CRUDE TRANSFER AND STORAGE FACILITIES	7,228.60
PIPELINE LAYING AND CONSTRUCTION MACHINERY	4,442.55
WATER SUPPLY SYSTEM	650.35
FIRE PROTECTION SYSTEM	498.00
OPERATING AND MAINTENANCE FACILITIES	542.00
TRANSPORTATION FACILITIES	1,523.50
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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Review Release Event: n/a
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Review Withdrawn Fields: n/a
SAS ID: 2213800
Secure: OPEN
Status: NATIVE
Subject: LOAN AGREEMENT FOR MYANMA OIL CORPORATION
TAGS: EFIN, ENRG, BTIO, MYANMA OIL CORP
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/7c241782-c288-dd11-92da-001cc4696bcc
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